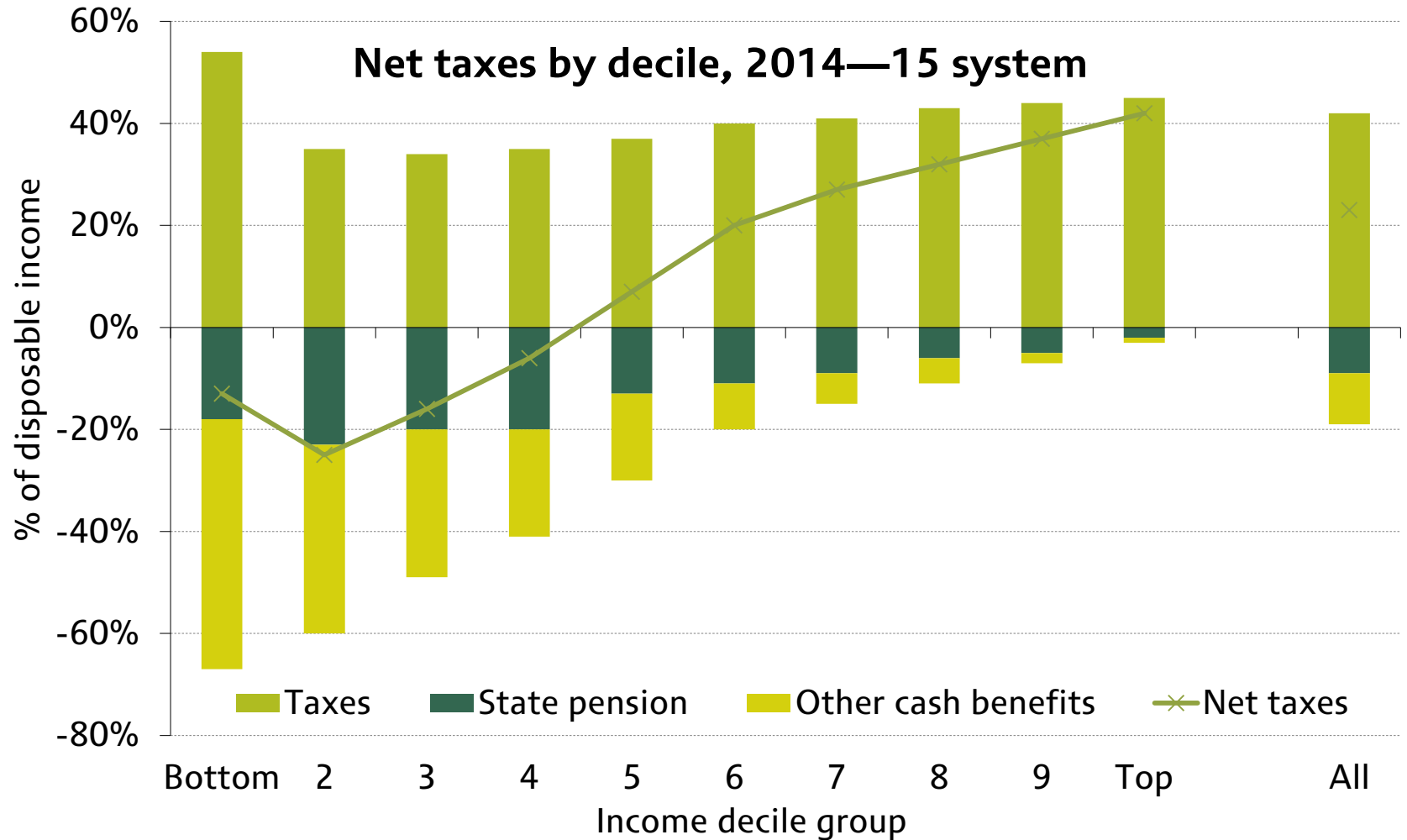


A Lifetime Perspective on Taxes, Benefits, Inequality and Redistribution

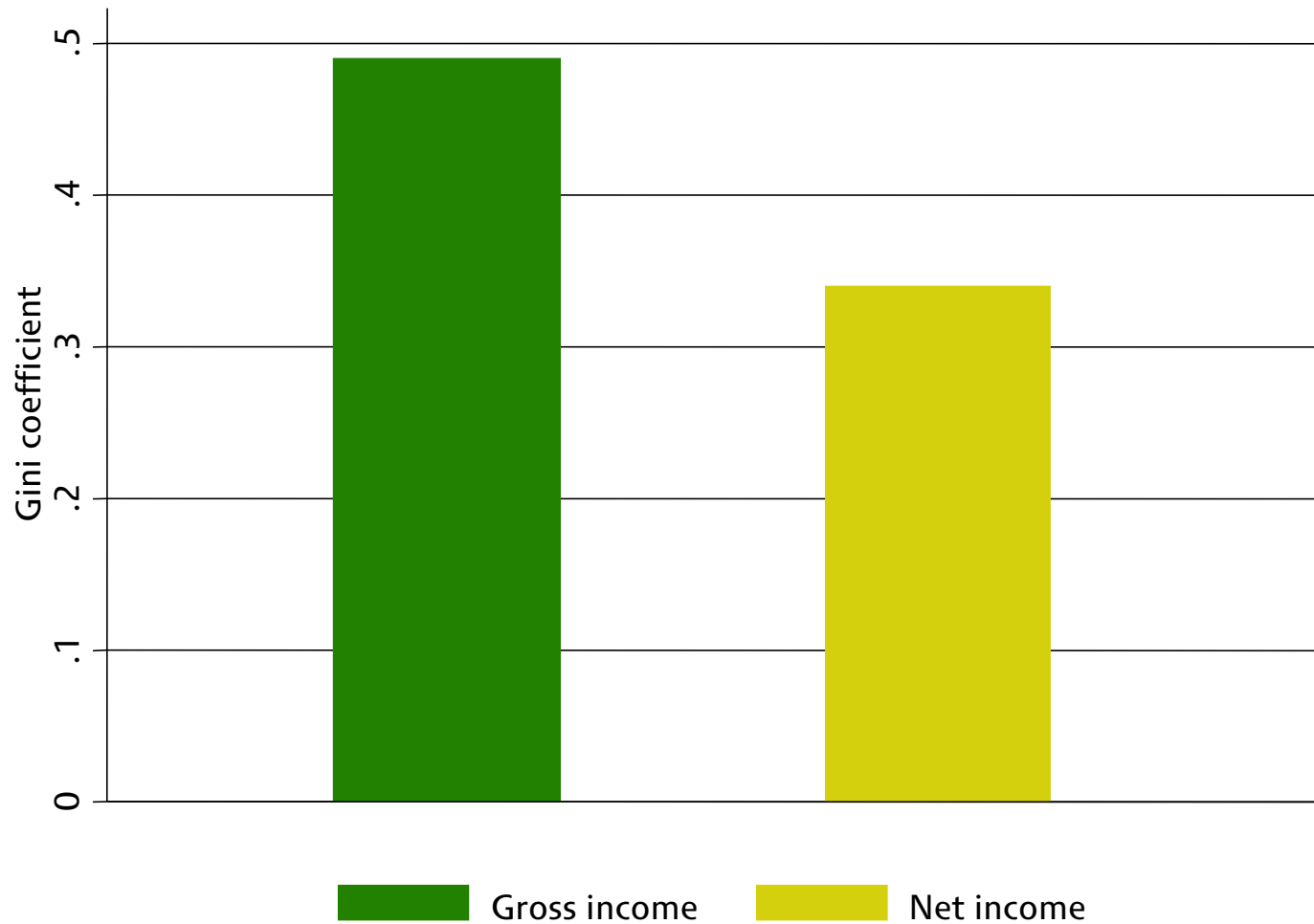
Barra Roantree

DEW Kenmare Conference, Wexford, September 2017

Key function of tax & benefit system is redistribution



... which significantly reduces income inequality



Notes: see Table 3.1 in 'Redistribution from a Lifetime Perspective'. Both bars show cross-section

But individuals' circumstances vary a lot over time

State	Average at point in time	Ever over 18-waves
In a couple	64.4%	87.2%
Married	56.0%	80.7%
Has child aged 18 or under	28.1%	52.3%
Disabled	7.7%	26.8%
Unemployed	4.7%	23.9%

Source: Table 2.2 from <http://www.ifs.org.uk/publications/7130>

Note: Authors' calculations based on BHPS data. Includes all non-dependants aged 16+. The 'average across waves' column includes all waves and is weighted using cross-sectional weights. The 'ever observed' columns are calculated for individuals observed in all waves from wave 1 to the destination wave and weighted using longitudinal weights. The final two lines (earnings quintiles) only include individuals who are employed in all relevant waves.

Means might want to take longer-run perspective

May change our assessment of:

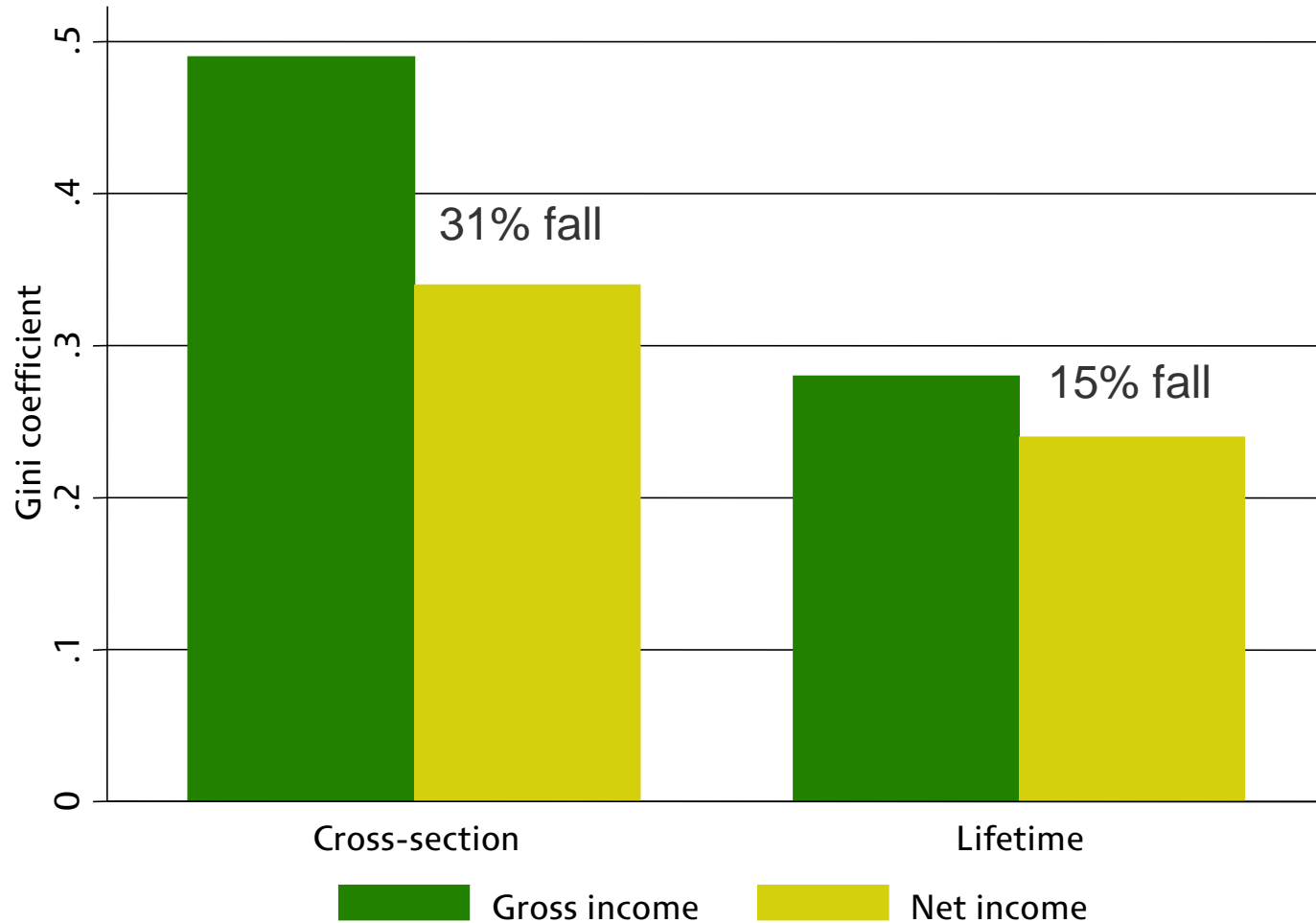
- Income inequality & the role of the tax and benefit system
- The progressivity of tax and benefit reforms
- How policy should be designed to redistribute resources

Most analysis of the tax & benefit system is based solely on cross-sectional information because of data limitations

- Levell, Roantree and Shaw (2015) simulated the lifetimes of the baby-boom cohort (1945-54) in order to address some of these questions
- Used British Household Panel Survey (BHPS) used to model transitions between consecutive years and Living Costs and Food Survey (LCFS) to adjust simulations to match cross-sectional distributions
- Include most personal taxes and benefits, assuming full take-up
- Ignores behavioural responses, public services

From a lifetime perspective...

Inequality is lower and the tax & benefit system does less to reduce it



From a lifetime perspective...

Inequality is lower and the tax & benefit system does less to reduce it

This is because quite a lot of inequality is transitory or age-related

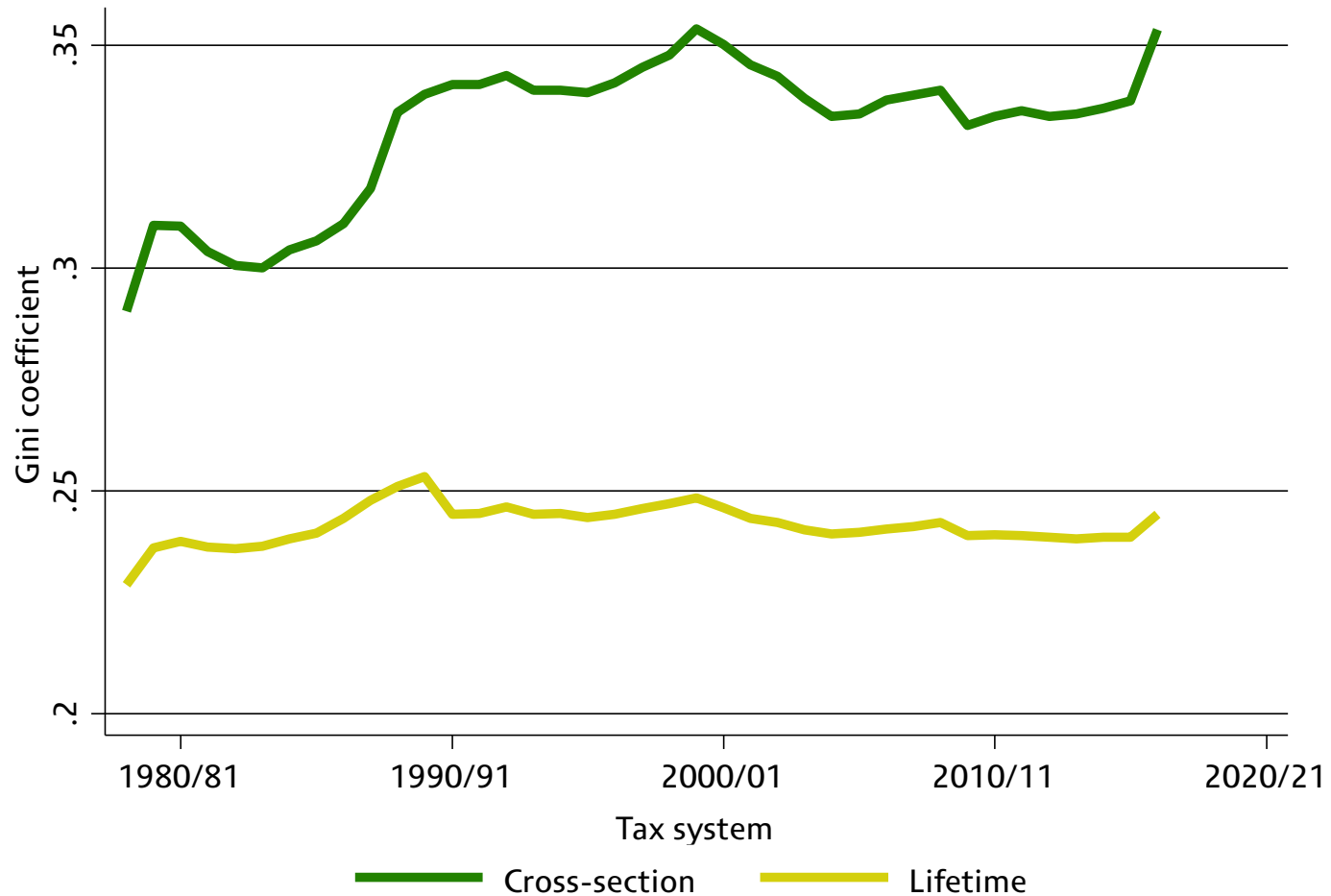
- People experience temporary periods of unemployment or low pay
- Given strong age-profile of earnings, snapshot inequality measures heavily influenced by people being at different stages of life

... and much of what the system does is intrapersonal redistribution

- That is, between periods of life rather than across individuals
- Many net tax payers today, but net benefit recipients tomorrow
- We estimate around 60% of total redistribution is intrapersonal (relative to either a lump-sum or proportional baseline)
- Nothing to do with 'contributory' benefits, which are very limited

From a lifetime perspective...

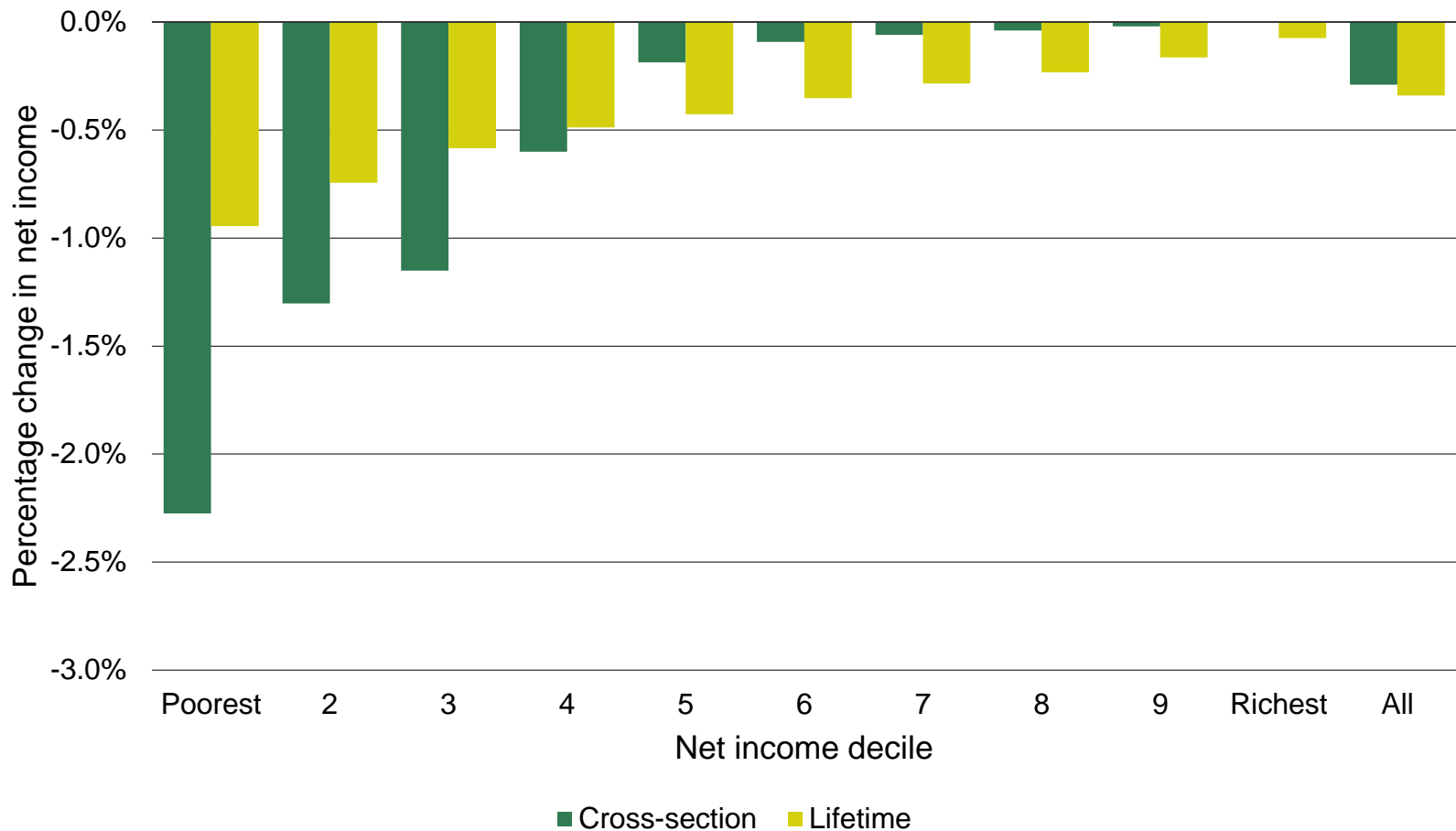
Tax and benefit reforms have a less dramatic effect on inequality



Notes: see Figure 4.1 in 'Redistribution from a Lifetime Perspective'

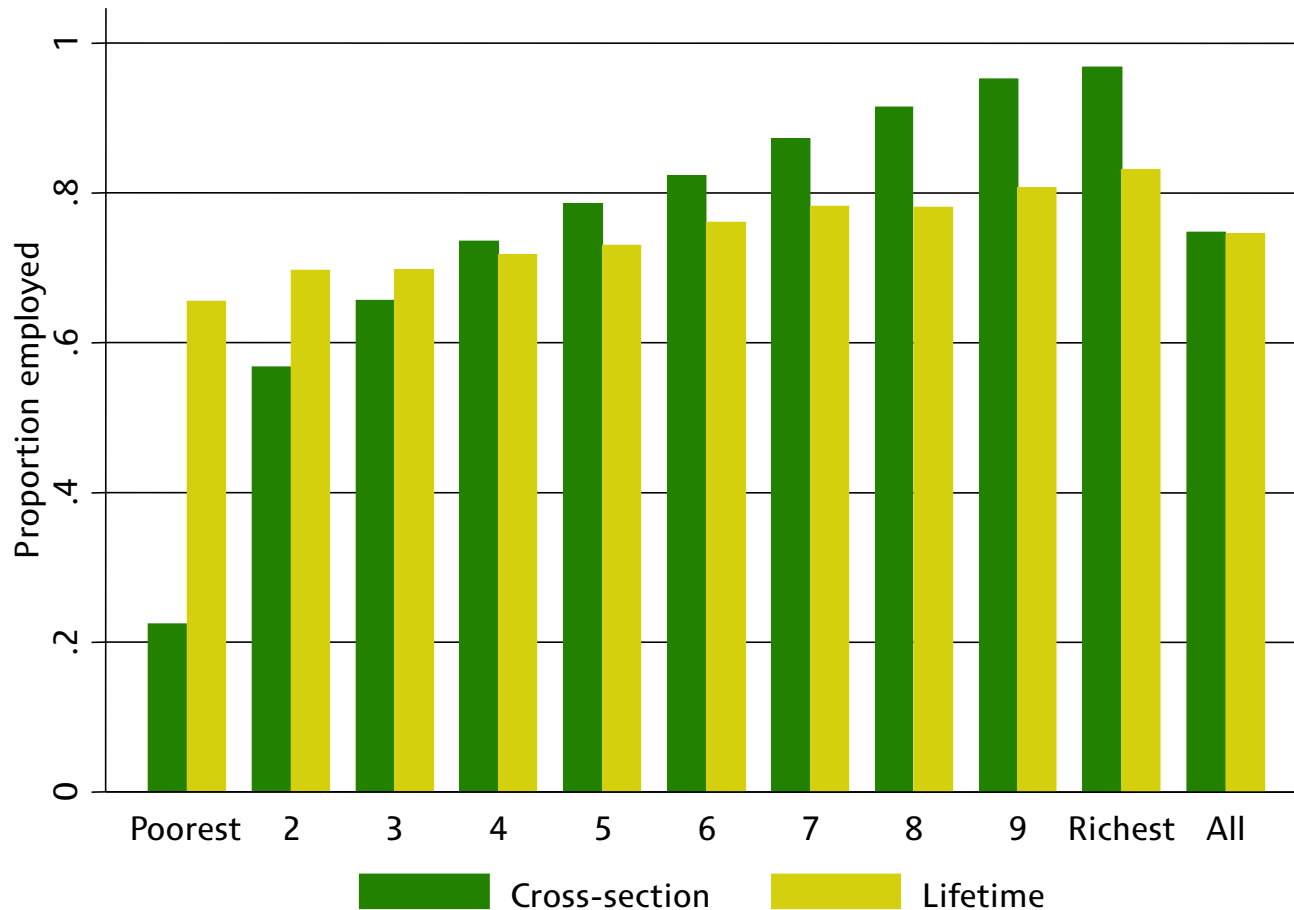
From a lifetime perspective...

... and smaller distributional consequences: e.g. 4-year benefit freeze



Notes: see Figure 4.4 in 'Redistribution from a Lifetime Perspective'

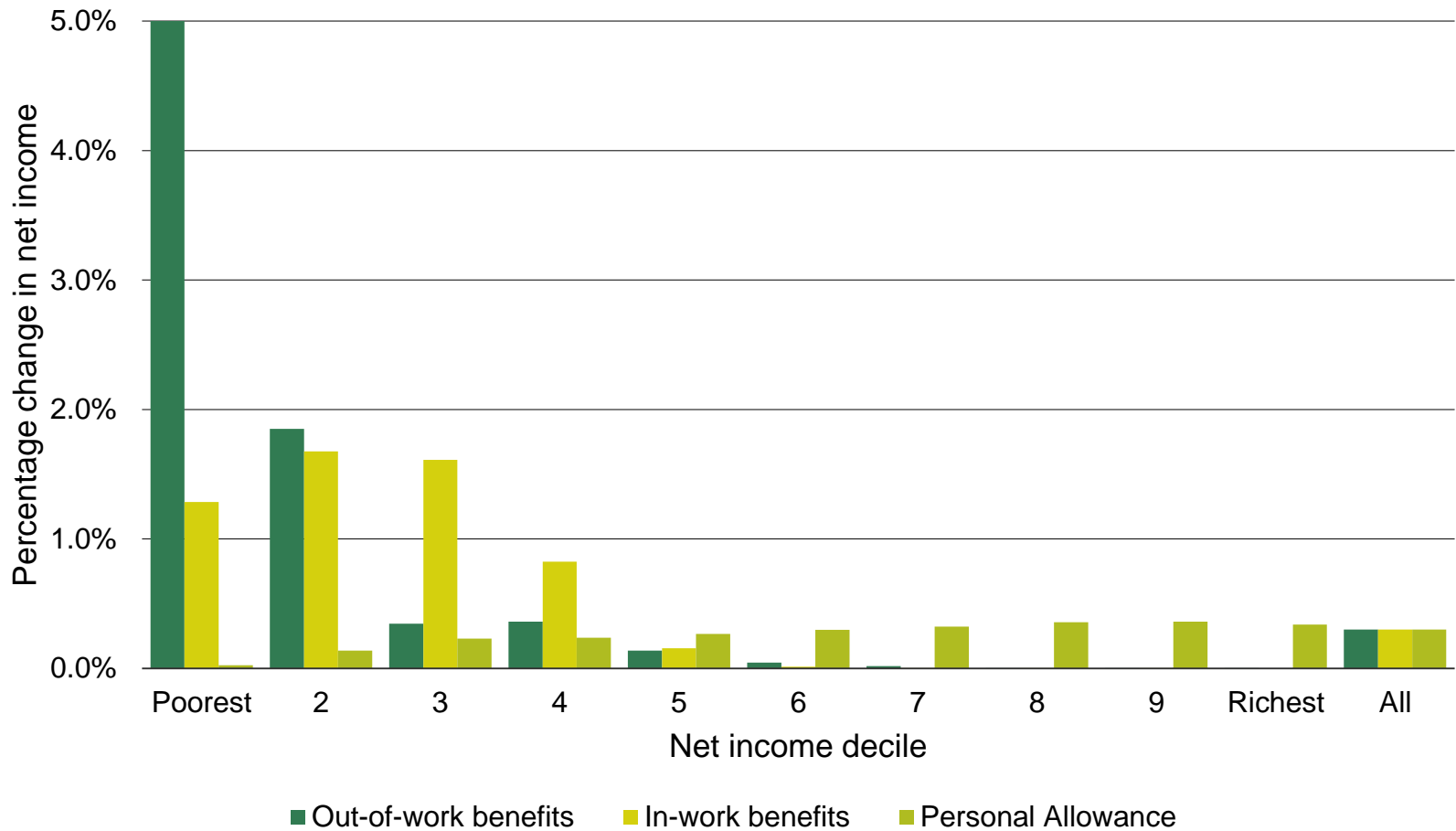
Key factor: on average, even lifetime poor spend majority of their working lives in (low-paid) work



Notes: see Figure 2.4 in 'Redistribution from a Lifetime Perspective'

... which has implications for policies targeted at worst off

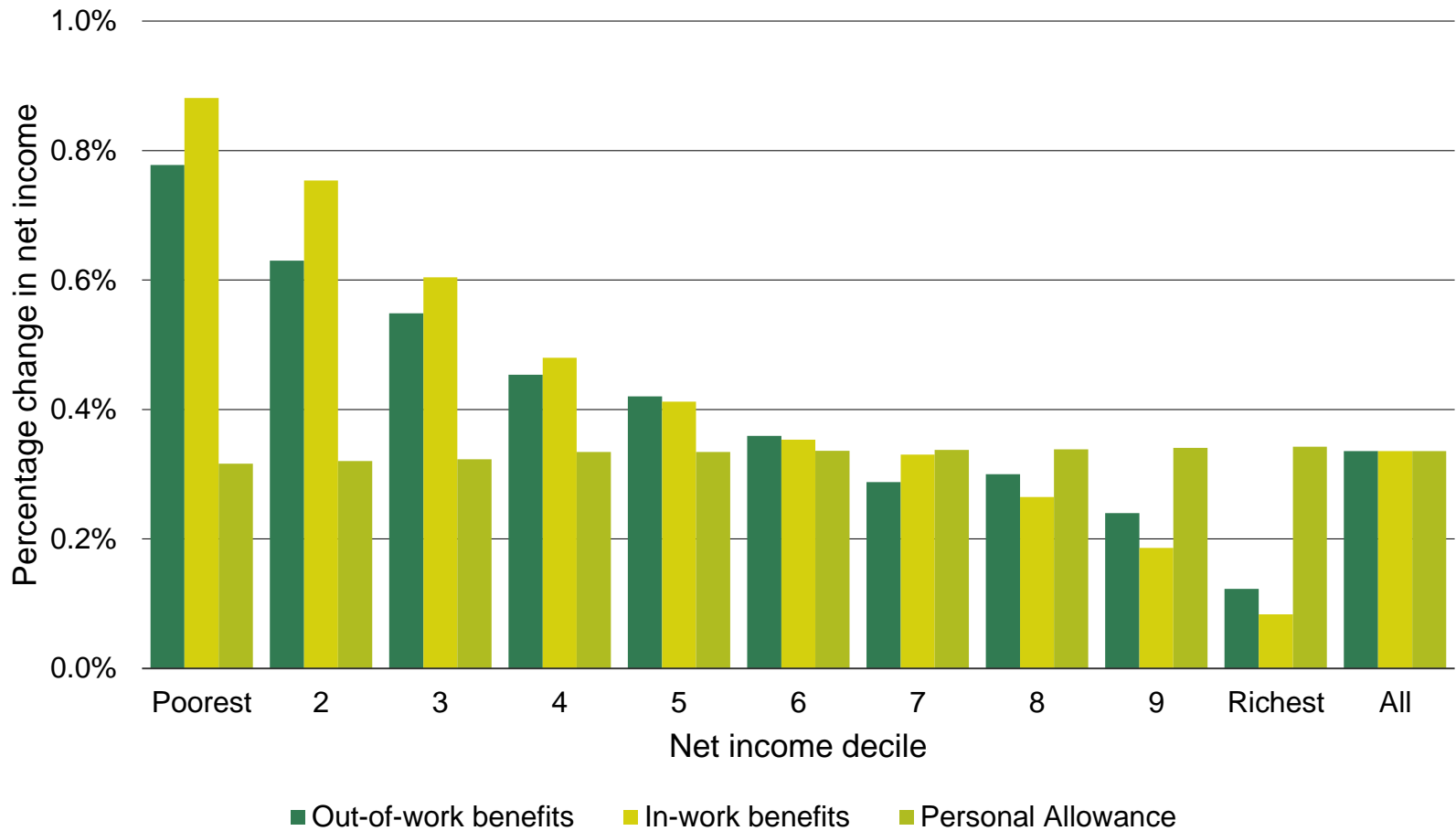
At snapshot, increases to out-of-work benefits look most progressive



Notes: see Figure 5.4 in 'Redistribution from a Lifetime Perspective'

... which has implications for policies targeted at worst off

But from lifetime POV, increases to in-work benefits more progressive



Notes: see Figure 5.4 in 'Redistribution from a Lifetime Perspective'

What implications does this all have for policy?

Individuals' circumstances vary a lot over time meaning distinguishing families as e.g. “working” and “non-working” not especially useful

- Unemployment experienced by large share of adults at some point
- Even lifetime poorest are – on average – in work for large % of lives

Policymakers should try be clearer about their objectives

- Alleviate temporary hardship or redistribute lifetime resources?
- Appropriate policy instrument can be very different

Policymakers seeking to redistribute resources to the lifetime poor might favour doing so through in-work benefits

- At least as progressive as increasing out-of-work benefits
- ... but less damaging effects on work incentives

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